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**Statement of the National Association of Mutual Insurance Companies to the
Insurance and Real Estate Committee**

**HB-6364, "An Act Concerning the Sunset Date for Personal Risk Insurance Rate Filings and Limiting
Rate Increases in Certain Circumstances"**

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I am pleased to provide comments on behalf of the National Association of Mutual Insurance Companies (NAMIC) regarding HB-6364, "An Act Concerning the Sunset Date for Personal Risk Insurance Rate Filings and Limiting Rate Increases in Certain Circumstances." NAMIC is the largest and most diverse national property/casualty insurance trade and political advocacy association in the United States. Its 1,400 member companies write all lines of property/casualty insurance business and include single-state, regional, and national carriers accounting for 50 percent of the nation's automobile/ homeowners market.

NAMIC is supportive of the provision in HB-6364 to extend the sunset date for flex-rating filings and would urge the Committee to consider removing the sunset provision altogether. However, NAMIC has serious concerns regarding the provision in the bill that would limit insurers' ability to file for rate increases for lines where they are not writing new business.

Extension of the Sunset Provision

NAMIC strongly supports the enactment of rate modernization statutes and regulatory changes that allow insurers operating in a competitive market to adjust rates in response to changing market conditions. NAMIC supported the adoption of Connecticut's personal lines flex-rating statute in 2006 as well as the previous extension of the statute's sunset provision. Consistent with that position, we support the provision of HB-6364 to extend the sunset again and further urge that it be extended beyond two years or eliminated altogether.

As a general matter, flex-rating laws promote competition among insurers because they provide confidence that an insurer can lower rates to attract more business but increase rates if necessary due to changing results and market conditions. They also allow for concentration of limited regulatory resources on important matters other than review of rate changes within the flex band range.

NAMIC supports rate modernization laws as a necessary element in creating a reformed system of state insurance regulation. Since passage of Connecticut's flex-rating statute in 2006, rate modernization laws have been enacted in Kansas, Georgia and New York, marking significant progress on this critical issue.

Because flex-rating statutes promote competition by providing insurers with confidence regarding their ability to adjust rates in the future, a flex-rating statute will be more effective in providing the benefits of competition if its provisions provide insurers with a sense of stability regarding its continuation. For this reason, NAMIC would urge the Committee to consider extending the sunset much further or eliminating it altogether.

Limiting Rate Increases When Insurers Are Not Writing New Business

NAMIC has serious concerns regarding the provision of HB-6364 that would prohibit an insurer from filing a rate increase greater than six percent after the insurer has discontinued "accepting applications for a line or subline of personal risk insurance." NAMIC believes this provision improperly interferes with insurers' ability to manage their business and would be detrimental to insurers, the marketplace, and consumers.

As an initial matter, it is important to note that while this provision has been included in a bill that applies to the flex-rating statute, this provision runs contrary to the nature of flex-rating and would apply to all filings, including prior approval filings which are reviewed by the Insurance Department. In light of such review, a statutory limitation on rate increases is not warranted. It is also significant to note that we are not aware of any other state having a similar provision in statute establishing an arbitrary numerical limitation on rate increases.

Having a statutory limitation on rate increases could lead to significant problems. An insurer may decide stop writing new business in a specific line for various legitimate reasons, and there is no reason to assume that an insurer that has ceased writing new business in a line does not need to increase rates in that line. To the contrary, there may be sound business reasons why an insurer that has stopped accepting new business in a given line needs a rate increase larger than six percent in that line.

An insurer may decide to stop accepting new business in a given line precisely because it has found it is losing money in that line, and it may be the case that such an insurer needs to increase rates more than six percent in order to achieve rate adequacy. An insurer that has determined that it needs a rate increase greater than six percent but cannot file for such a rate increase because of a statutory prohibition would face a difficult choice. The insurer could be prompted to nonrenew business in order to stop losing money and exit the line altogether. Or the insurer could continue to write the business at an inadequate rate, which ultimately could threaten the insurer's solvency and force it out of business. In either case, the result would be eliminating a choice in the marketplace and therefore reducing competition. This would be detrimental consumers as well as insurers.

Both ratemaking and decisions regarding whether to continue to write new business in a given line are fundamental to the management of an insurance company. In NAMIC's view it is inappropriate to have a statutory provision setting an arbitrary numerical limit on an insurer's ability to file for a warranted rate.

Thank you for the opportunity to present NAMIC's views on these important subjects. I would be happy to answer any questions.

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